



WALKTHROUGH OF THE FIVE STEP MODEL

ABC Construction enters into a contract with a customer to construct a commercial building on the customer's land for \$2 million. In addition, ABC Construction will earn a performance bonus of \$200,000 if the building is completed within 2 years. During construction, ABC Construction is responsible for the overall management of the project and identifies various goods and services to be provided, including engineering, site clearance, foundation, procurement, construction of the structure, piping and wiring, installation of equipment and finishing.

The following contract values are assigned to the goods and services being provided: project management \$200,000, engineering \$100,000, site clearance \$100,000, foundation \$100,000, pipes and wiring \$200,000, equipment installation \$100,000 and finishing \$150,000.

ABC Construction completed the construction of the building after 1 year and 9 months of the contract being executed with the customer.

Step 1: Identify the contract(s) with the customer

Does a contract exist? _____

Step 2: Identify the separate performance obligations in the contract(s)

How many performance obligation(s) are represented in the contract?

Step 3: Determine the transaction price

What is the transaction price at contract inception?

Step 4: Allocate the transaction price

How should the transaction price be allocated?

- a) Based on contract value
- b) Based on relative selling price
- c) Based on fair value
- d) No allocation of price

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

When should revenue be recognized?

- a) 1 year and 9 months after the contract was signed
- b) As each milestone was completed
- c) Over time